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POSTAL RATE AND FEE CHANGES, 2000 | Docket No. R2000–1

NOTICE OF UNITED STATES POSTAL SERVICE CONCERNING ERRATA TO REBUTTAL TESTIMONY OF WITNESS MILLER (USPS-RT-15) (ERRATUM)
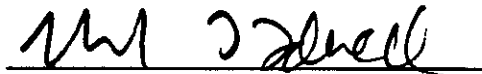
The United States Postal Service hereby files this notice of errata to the rebuttal testimony of witness Miller (USPS-RT-15). Attached is a list of the corrections being made, followed by a copy of the revised pages to USPS-RT-15.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Michael T. Tidwell

August 28, 2000

<u>Page</u>	<u>Line</u>	<u>Change</u>
ii		insert "Proposed" at beginning of Outline section III.D.1 title
iii		"LETTER" to "MAIL" in title of Table 2
4		"LETTER" to "MAIL" in title of Table 2
4	21	"letters are BMM letters" to "mail is"
4	23	"letters are" to "mail volume is"
18	26	delete ", as does the AFCS,"
18		delete redundant footnote 51
23	3-4	delete "Business Reply Mail (BRM)," and ", Periodicals,"
23	10	delete "Business Reply Mail (BRM),"
23	11	delete "Periodicals,"
23	12	"$1.804" to "$1.690"
24	9, 12-15	delete
24	21	"180,438" to "169,117" and "$1,804" to "$1,690"
24	27, 30-33	delete
25	7	insert "Proposed" before "PC"
26	13	add quotation mark after period
28	14	"Hesleton" to "Heselton"
29	1-6	delete
37	8	delete "\" at end
Attachment 15A		in section B, change "Printing Cost Per Piece" to "Total Printing Cost"
Attachment 15A		footnote (3): change "Tr. 21/8988" to read "Revised response of USPS to OCA/USPS-8 (filed 2/10/00; designated 8/16/00)."

LIST OF TABLES

LIST OF ATTACHMENTS

1   The majority of the metered mail stream is weighed into two MODS operation

2   numbers: 020 and 020B.[8] Operation 020 represents the mail processed on the "meter

3   belt." The meter mail bundles that are culled out of the single-piece mail stream are

4   typically processed in this operation. The bundles are sorted based on destination

5   and/or are unbundled and placed into trays for further processing. The 020B operation

6   is used to weigh the metered mail that enters postal facilities in trays. Since this mail

7   enters postal facilities in trays, it "bypasses" meter belt processing and proceeds

8   directly to automated letter sorting equipment. The Fiscal Year 1999 mail volumes for

9   these two operations are shown below in Table 2.

10

11   **TABLE 2: FY 1999 METERED MAIL VOLUMES**

12

MODS OP. No.	Operation		Volume	Percent
020	Meter Belt		14,247,194,500	49.26%
020B	Meter Belt Bypass	(BMM)	14,674,771,500	50.74%
			28,921,966,000	100.00%

18   **2. The BMM Letters Cost Estimate Could Be Somewhat Overstated**

19

20   The data in Table 2 clearly show that BMM letters exist. Roughly half of all

21   metered mail is weighed into the MODS system as 020 "bypass" mail, while the other

22   half are metered bundles processed in the 020 meter belt operation. Given that nearly

23   half of the metered mail volume is processed on the meter belt, it goes without saying

24   that the costs related to bundle sorting would be imbedded in a metered letters cost

25   estimate.

26   As I pointed out in my direct testimony,[9] the BMM letters cost estimate reflects

27   the costs for all metered letters, with the exception that the "1Cancmmp" cost pool is

28   set to zero. As a result, some cost pools that contain bundle sorting activities (e.g.,

29   "Pouching" and "1OpPref") are probably higher in magnitude than they would otherwise

30   be, had it been possible to isolate a BMM letters cost estimate using the CRA. Given

31   that these cost pools were classified as "worksharing related fixed," the net result could

32   be that the worksharing related savings estimates calculated for the First-Class

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[8] Some individual metered letters are processed by the Advanced Facer Canceler System (AFCS).
[9] Docket No. R2000-1, USPS-T-24, page 12, lines 16-27.

1   **1. The "P" Rate Proposal Also Results In A "Two Stamp Problem"**
2

3   The "P" rate proposal involves an alternative (lower) basic rate for single-piece

4   First-Class Mail entered into postal facilities, for the sender, by an intermediary presort

5   bureau or MLOCR-qualified mailer. Witness Clifton has recommended that the "P"

6   stamp be offered at a 2-cent discounted rate. The CEM issues concerning revenue

7   losses and additional education, window service, and revenue protection costs would

8   therefore apply to the "P" rate proposal as well. In fact, these problems would be

9   further complicated were both the CEM and "P" rate proposals implemented because

10   the Postal Service would have to contend with three alternative basic rate First-Class

11   Mail stamps.[52]

12

13   **2. It Has Not Been Demonstrated That The Presort Industry Could**
14   **Handle The Additional First-Class Single-Piece Mail Volume**
15

16   NAPM witness MacHarg could not provide a system-wide presort industry

17   equipment inventory.[53] As a result, there is no evidence demonstrating that the industry

18   could handle the additional mail that could potentially migrate to the "P" rate, were this

19   proposal approved.

20   In addition, presort bureaus/MLOCR qualified mailers do not currently house

21   cancellation equipment, such as the AFCS.[54] Since "P" rate mail pieces contain

22   stamps, they would have to be cancelled. Witness MacHarg feels that the MLOCRs

23   that are currently used by the presort industry could be modified with a second printer to

24   accomplish this task. It is not clear that presort industry equipment is equipped with this

25   modification to any significant degree. Even if it were, a modified MLOCR could not

26   automatically adjust the cancellation height to accommodate the wide variety of mail

27   piece heights that would be found in the single-piece mail stream. Witness MacHarg

28   states that the mail pieces would have to be culled by height prior to

---

[52] Witness Willette proposes a 3-cent CEM discount while witness Clifton proposes a 2-cent "P" rate
discount. In addition, it is unclear precisely how both discounts would co-exist.
[53] Docket No. R2000-1, Tr. 26/12168-12170.
[54] Docket No. R2000-1, Tr. 26/12166.

1   could be said of other mail that also uses stamp alternatives. Were these alternatives

2   not available, stamps would likely be used. The following mail pieces could also be

3   characterized as "avoiding" stamp manufacturing and distribution costs: First-Class

4   workshared mail and Standard Mail (A) workshared mail.

5

6   If a meter discount were extended to other mail that "avoids" stamp

7   manufacturing and distribution costs, the revenue loss could be substantial. The

8   potential loss calculated below in Table 5 includes the Test Year (TY) revenue loss

9   calculated for the current metered mail volume by witness Haldi.[70] In addition, it also

10   includes revenue losses for PC Postage, First-Class workshared mail, and Standard

11   Mail (A) workshared mail. This potential

12   $1.690 billion revenue loss can be thought of as a maximum because some of these

13   mailers, such as Standard Mail (A) Non Profit mailers, also use stamps to some degree.

14   The logical place to shift the burden of this loss would be to those mail pieces that use

15   stamps to pay postage.

16

17   **4. The Postal Service Opposes The Metered Mail Rate**

18

19   Mailers currently apply postage using meters because this is the most

20   convenient, cost-effective postage solution for them. The various methods that can be

21   used to obtain and apply postage exhibit a wide variety of costs, whether these

22   methods involve stamps or not. In addition, there are many other mail pieces, other

23   than metered mail, that also avoid stamp manufacturing and distribution costs. If those

24   mail pieces also qualified for this discount, the revenue loss would be substantial. This

25   loss would likely have to be recovered from mailers that use stamps. As a result, the

26   Postal Service opposes the metered mail rate proposed by Pitney Bowes.

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[70] Docket No. R2000-1, Tr. 29/13910 at 16.

TABLE 5: POTENTIAL TY REVENUE LOSS FOR A 1-CENT "METERED MAIL" DISCOUNT

Product Description	Volume (Millions)	Revenue Loss (Millions)
1. Existing Metered Mail	24,501	$ 245
2. PC Postage Mail	4,000	40
3. First-Class Presort Letters	47,049	470
4. First-Class Presort Cards	2,734	27
5. Standard Mail (A) Regular	42,784	428
6. Standard Mail (A) ECR	33,631	336
7. Standard Mail (A) Non Profit	11,511	115
8. Standard Mail (A) NP ECR	2,907	29
Total	**169,117**	**$ 1,690**

Volume Source:

1. Docket No. R2000-1, Tr. 29/13937 at 19.
2. Docket No. R2000-1, Tr. 23/10584 at 20-23.
3. Docket No. R2000-1, USPS-T-6, Table 3A.
4. Docket No. R2000-1, USPS-T-6, Table 5B.
5. Docket No. R2000-1, USPS-T-6, Table 11A.
6. Docket No. R2000-1, USPS-T-6, Table 12A.
7. Docket No. R2000-1, USPS-T-6, Table 13A.
8. Docket No. R2000-1, USPS-T-6, Table 14A.

1   **D. THE ESTAMP AND STAMP.COM PC POSTAGE RATES:**
2   **DISCOUNTS AHEAD OF THEIR TIME**
3
4   In August 1999, the Postal Service permitted private vendors to begin selling

5   postage on the internet, which could be accessed by Personal Computer (PC).

6
7   **1. Proposed PC Postage Discounts Would Offset Usage Fees**
8
9   One vendor, E-Stamp Incorporated, offers an "open system" PC Postage

10   product.[71] E-Stamp customers must purchase a $49.99 "starter kit" that contains a

11   software CD, an "electronic vault" that attaches to a computer port and printer,[72] an

12   address matching CD, and sample labels. The address cleansing process requires the

13   use of the address matching CD. Each postage purchase is subject to a 10%

14   "convenience fee," with minimum and maximum fee charges of $4.99 and $24.99,

15   respectively.

16   Another vendor, Stamps.com, also offers an "open system" PC Postage product.

17   The required software can be downloaded over the internet. As a result, the address

18   cleansing process is performed on-line. Stamps.com offers a "simple plan" and a

19   "power plan." Under the simple plan, each postage purchase is subject to a 10%

20   "service fee" with a minimum fee charge of $1.99. Under the power plan, subscribers

21   are charged a flat monthly fee of $15.99 and can print an unlimited amount of postage.

22   In this docket, both E-Stamp and Stamps.com propose discounts for open

23   system PC postage products. E-Stamp witness Jones proposes a 4-cent discount for

24   letters when the address, barcode, and indicium are printed directly on the envelope.[73]

25   Witness Jones states that "Unless a discount is offered, PC Postage will not be able to

26   attract enough customers to convert in order to establish this form of postage

27   evidencing as a mainstream postage solution."[74]

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[71] Docket No. R2000-1, Tr. 29/13646 at 6-8. "Open system" PC postage products are those that undergo an "address cleansing" procedure that results in an approved delivery address and POSTNET delivery point barcode.
[72] The electronic vault allows the user to print postage without being connected to the internet.
[73] Docket No. R2000-1, Tr. 29/13651 at 3-7. E-Stamp does not propose a discount for letters when the address, barcode, and indicium are printed on labels affixed to the envelope.
[74] Docket No. R2000-1, Tr. 29/13648 at 9-11.

1   Stamps.com witness Heselton proposes two separate discounts: a 4-cent

2 discount for letters when the address, barcode, and indicium are printed directly on the

3 envelope, and a 3-cent discount for letters when the address, barcode and indicium are

4 printed on labels.[75] Unlike witness Jones, witness Heselton does not imply that the fate

5 of PC Postage is dependent upon a discounted rate. In fact, for some mail pieces

6 witness Heselton "doubts very much that most single-piece mailers would go through

7 those steps, or even some portion of them, to save 4 cents on postage."[76]

8   The fact that both E-Stamp and Stamps.com propose 4-cent discounts may be

9 coincidental. However, it does not appear to be coincidental that the proposed

10 discounts would offset the 10% fees that both organizations charge their customers.[77]

11 As witness Jones stated, "The preferred model would be a net cost of zero to the PC

12 Postage user - using the reduction in postage to fully offset the cost of the PC Postage

13 vendor service."[78]

14

15 **2. The Worksharing Related Savings Estimates Are Overstated**

16

17   The discounts proposed by E-Stamp and Stamps.com are based on the

18 worksharing related savings estimates calculated by witness Prescott (E-Stamp-T-2)

19 and witness Heselton (Stamps.com-T-1), respectively. The methodologies used by

20 both witnesses have overstated the savings for PC Postage letters.

21   **E-Stamp:** Witness Prescott's estimates are particularly problematic. He

22 calculates two separate estimates using methodologies that are slightly different.

23   The first savings estimate of 6.15 cents uses mail processing unit cost data for

24 the First-Class presort letters rate categories. This estimate is calculated to be the mail

25 processing unit cost difference between "nonautomation presort letters" and

26 "automation non-carrier route presort letters."[79] The first CRA category is a rate

27 category in itself, while the latter category contains the aggregate costs for the

28 automation basic presort, 3-digit presort, and 5-digit presort letters rate categories.

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[75] Docket No. R2000-1, Tr. 23/10482 at 5-9.

[76] Docket No. R2000-1, Tr. 23/10506.

[77] A 4-cent discount would offset the 10% fee of 3.3 cents that would be assessed against a First-Class single-piece first-ounce mail piece that required 33 cents in postage.

[78] Docket No. R2000-1, Tr. 29/13687.

[79] Docket No. R2000-1, Tr. 29/13762, Table 1.

1 completed such an analysis. As a result, he has improperly estimated the PC Postage

2 worksharing related savings.

3 **Stamps.com:** Witness Heselton relies on a Qualified Business Reply Mail

4 (QBRM) savings estimate of 2.99 cents[84] in developing his PC Postage worksharing

5 related savings estimate.[85] He also includes a "return-to-sender" cost avoidance of

6 1.14 cents.[86] In total, he calculates a 4.13-cent worksharing related savings estimate.

7 The QBRM cost avoidance estimate was calculated using a handwritten letter as

8 a benchmark. Witness Heselton claims that the same benchmark should apply to PC

9 Postage letters, despite the fact that he estimates that 2/3 of the mail pieces converting

10 to PC Postage previously had a machine printed/typewritten address.[87] He made no

11 attempt to use a machine printed/typewritten mail piece as a benchmark, nor did he

12 attempt to use a weighted benchmark reflecting a mix of both machine

13 printed/typewritten mail pieces and handwritten mail pieces.[88]

14 The comparisons that witness Heselton has made between QBRM and PC

15 Postage mail pieces are somewhat erroneous. QBRM is largely used to make contact

16 with individual household mailers. If QBRM recipients did not provide these mail pieces

17 to their customers, those customers would likely have to address a mail piece by hand,

18 or use some non-mail alternative.

19 In contrast, PC Postage appears to target small businesses and home office

20 businesses.[89] The use of a handwritten letter benchmark to calculate the savings for

21 PC Postage letters makes less sense because many businesses currently enter letters

22 with machine printed/typewritten addresses. In addition, the prebarcoded reply mail

23 piece that is used to calculate the QBRM cost avoidance is processed through different

24 operations than a PC Postage mail piece.[90] As a result, the 2.99-cent figure that

25 witness Heselton cites in his testimony overstates the PC Postage letter worksharing

26 related savings.

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[84] Docket No. R2000-1, USPS Library Reference LR-I-146.

[85] Docket No. R2000-1, Tr. 2310458 at 14-19.

[86] Docket No. R2000-1, Tr. 23/10462 at 13-14.

[87] Docket No. R2000-1, Tr. 23/10460 at 11-13.

[88] Docket No. R2000-1, Tr. 23/10537-10539.

[89] Docket No. R2000-1, Tr. 29/13814-13857.

[90] PC Postage mail processing methods will be discussed in the next section.

1
2
3
4
5
6
7

8   **3. Mail Processing Operations Are Not Currently Configured To**
9   **Capture PC Postage Barcode Savings**
10

11   A savings estimate that would have used a machine printed benchmark would

12 have yielded little to no savings because postal mail processing operations are not

13 currently configured to capture PC postage savings. This fact is not likely to change

14 because the automation outgoing primary operation is used to process reply mail.

15   PC Postage letters contain a FIM "D" marking and are sorted to the "machine

16 printed/imprint" bins (5 and 6) on the Advanced Facer Canceler System (AFCS).

17 Stamps.com witness Kuhr has stated that 13% of the total QA envelopes received have

18 FIM markings that do not fall within specification.[91] If a given FIM "D" marking does not

19 meet DMM specifications, the PC Postage letter will still be sorted to bin 5 or 6 on the

20 AFCS. This mail piece would ultimately pass through the AFCS "enricher" module and

21 would be interpreted as having a "machine printed/imprint" address. Since machine

22 printed mail is also sorted to bins 5 and 6, the FIM "D" marking has little impact on how

23 the mail piece is sorted on the AFCS, as the operation is currently configured.

24   The mail from bins 5 and 6 is routed to a Multi Line Optical Character Reader

25 Input Sub System (MLOCR-ISS) for subsequent processing. The MLOCR-ISS will

26 either read the barcode (if present) or it will scan the address block in order to

27 determine the proper barcode. In the latter case, the MLOCR-ISS will apply a barcode

28 in the lower right hand corner of the mail piece if it is able to successfully "resolve" the

29 mail piece. Given that PC Postage letter addresses are machine printed and have

30 been "cleansed," it is likely that the MLOCR-ISS will either read the barcodes or

---

[91] Docket No. R2000-1, Tr. 23/10351.

1 by shape for nonstandard single-piece mail are 22.414 cents, a figure that is still

2 substantially larger than the 11-cent rate that witness Fronk proposes should be

3 maintained.[107]

4   Finally, if one assumes that witness Callow's proposal to eliminate the

5 nonstandard surcharge also applies to "low" aspect ratio presort letters, it should be

6 observed that he has provided no cost evidence specific to presort in his testimony.

7
8 **C. THE NONSTANDARD SURCHARGE REQUIREMENTS SHOULD BE**
9 **MAINTAINED IN THEIR CURRENT FORM**
10
11   The Postal Service has deployed more complex letter mail processing equipment

12 during the past decade. Contrary to witness Callow's claims, the current generation of

13 letter sorting equipment has not made the nonstandard surcharge obsolete for low

14 aspect ratio letters. If anything, these requirements may be more important now than

15 they have ever been, due to complex equipment designs and high machine

16 throughputs. In addition, witness Callow's cost analysis clearly shows that low aspect

17 ratio nonstandard letters do, indeed, incur additional costs when compared to an

18 average single-piece letter. As a result, the Postal Service feels that the nonstandard

19 surcharge requirements should be maintained in their current form.

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[107] See Attachment USPS-RT-15C.

ATTACHMENT USPS-RT-15A
CEM EDUCATION COSTS

		(1)
A. TELEVISION, RADIO, AND NEWSPAPER ADVERTISING		$20,585,260
Network Television	$12,730,130	
Prime/Prime News	$10,168,100	
Evening News	$1,475,630	
EMI	$1,086,400	
Network Radio	$3,363,730	
R.O.S.		
Newspapers	$4,491,400	
Top 25 Markets		

B. DIRECT MAILING

(2)	(3)	(4)	(5)
	Total	Postage	
Number of	Printing	Cost Per	Total
Delivery Pts	Cost	Piece	Cost
132,152,177	$2,500,000	$0.051	$9,239,761

C. POINT-OF-PURCHASE BROCHURES

(6)	(7)	(8)	(9)
Number of	Printing	Avg Qty	
P.O.'s, Stations	Cost Per	Per	Total
and Branches	Brochure	Retail Unit	Cost
38,169	$0.04	2,000	$3,259,633

TOTAL EDUCATION COSTS $33,084,654

(1) 1997 Cohn and Wolfe Estimate Adjusted To 2000 Dollars
   Using Bureau of Labor and Statistics Inflation Calculator
(2) Tr. 21/9106
(3) Revised response of USPS to OCA/USPS-8 (filed 2/10/00;
   designated 8/16/00).
(4) Tr. 21/9118
(5) [(2) * (4)] + (3)

(6) FY 1999 USPS Annual Report
(7) Young Rubican Estimate Adjusted to 2000 Dollars
   Using Bureau of Labor and Statistics Inflation Calculator
(8) USPS Estimate
(9) (6) * (7) * (8)